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IRS Issues Summer 2006 Statistics of Income Bulletin

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WASHINGTON — The Internal Revenue Service today announced the release of the Summer 2006 issue of the Statistics of Income Bulletin. The Summer Bulletin contains in-depth looks at sole proprietorship returns for 2004, foreign-controlled domestic corporations (FDCs) for 2003-2004, U.S. Possessions corporation returns for 2003, special estate tax provisions for family-owned farms and closely held businesses, Statistics of Income studies of international income and taxes, and Federal estate tax returns for nonresident aliens, 2003, 2004 and 2005.

For Tax Year 2004, there were approximately 20.6 million individual income tax returns that reported nonfarm sole proprietorship activity. Total profits for all nonfarm sole proprietorships were \$247.6 billion, a 7.5-percent increase from Tax Year 2003. The largest percentage increase in profits for a major industrial sector was 18.3 percent for the wholesale trade sector, followed by a 9.2-percent increase by both the real estate and rental and leasing sector and the professional, scientific and technical services sector. Although overall profits for nonfarm sole proprietorship returns increased, deficits also increased by an amount of 7.5 percent in real terms from Tax Year 2003.

For Tax Year 2003, there were 58,945 domestic corporations each controlled by a foreign person, which accounted for just 1.1 percent of U.S. corporations. However, these corporations generated \$2.6 trillion of total receipts and reported \$6.2 trillion of total assets, accounting for 12.4 percent of the receipts and 11.5 percent of the assets reported on all U.S. corporation income tax returns. The profits ("net income less deficit") reported by FDCs for tax purposes were \$32.0 billion, accounting for 4.1 percent of the profits by all corporations for 2003.

There were 136 U.S. corporations that reported \$1.1 billion of possessions tax credits for Tax Year 2003. The number of U.S. corporations claiming a possessions tax credit and the total amount of the credit reported continued declines that began in the 1990s. These declines coincided with increased legislative restrictions on the use of the possessions tax credit. For 2003, some 19 pharmaceuticals and medicines manufacturers reported possessions tax credits of \$0.6 billion, approximately 53 percent of the total. The food manufacturing, medical equipment and supplies, computers and electric equipment, and textiles and apparel industries also claimed 12 percent and 11 percent of total possessions tax credits for 2003, respectively.

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The *Bulletin* also reports that about 1,800 estates, or 1.7 percent of the 2001 estate tax decedent population, elected to use at least one of the provisions available to decedents who died in 2001 if estates met certain requirements: special use valuation, the qualified family-owned business deduction, and the deferral of Federal estate tax liabilities. The likelihood that an estate would utilize one of the provisions varied by provision and size of gross estate.

Additionally, Statistics of Income (SOI) conducts fourteen studies of international income and taxes. Many of the trends noted in these studies show an increase in the amount of foreign activity of U.S. persons and the amount of U.S. activity of foreign persons. Total receipts of the largest 7,500 controlled foreign corporations (CFCs), for example, grew at a higher rate than total receipts of U.S. corporations. The portion of total receipts from all U.S. corporations earned by those controlled by foreign persons grew from 2 percent for Tax Year 1971 to nearly 13 percent for Tax Year 2002. Over the past two decades, however, fluctuations in foreign-source taxable income from corporations have roughly followed the same pattern as fluctuations in worldwide taxable income.

The final Bulletin article shows that the number of returns filed for estates of nonresident aliens increased significantly in recent filing years, from 525 in Filing Year 2003 to 734 in Filing Year 2005. Within these totals, there were two main types of return: treaty status returns and nontreaty status returns. Among treaty status returns, Canada, Germany and the United Kingdom were the most common countries of domicile for decedents in each of the filing years. The U.S. total gross estate of treaty status returns increased from \$125.4 million in 2003 to \$292.4 million in 2005. For nontreaty status returns, U.S. total gross estate increased from \$48.4 million in 2003 to \$110.0 million in 2005.

The Bulletin also includes historical data on income, deductions and tax reported on returns filed by individuals, corporations and unincorporated businesses, and selected historical data for estates. Statistics are also presented on tax collections, including excise taxes by type, and refunds for recent years.

For more information about these data, either write the Director, Statistics of Income (SOI) Division, RAS:S, Internal Revenue Service, P.O. Box 2608, Washington, DC 20013-2608, call the SOI Statistical Information Services office at (202) 874-0410, or fax questions to (202) 874-0964 (not toll-free calls).

The Statistics of Income Bulletin is available from the Superintendent of Documents, U.S. Government Printing Office, P.O. Box 371954, Pittsburgh, PA 15250-7954. The annual subscription rate is \$53 (\$74.20 foreign); single issues cost \$39 (\$48.75 foreign). To access the Summer 2006 Statistics of Income Bulletin, visit the IRS Web site at <http://www.irs.gov/taxstats/article/0,,id=117514,00.html> and click on "Summer" in the row labeled 2006.